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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001721

SIPDIS

SIPDIS

DEPT FOR EB ASSISTANT SECRETARY DANIEL SULLIVAN AND BOB
POLLARD, S/P - STEPHEN KRASNER
DEPT PLEASE PASS TO USTR SHAUN DONNELLY, PAUL BURKHEAD AND
BETSY HAFNER
TREASURY FOR ASSISTANT SECRETARY CLAY LOWERY, DAS NANCY
LEE, AND JEFF BAKER
USAID FOR DREW LUTEN
EMBASSY MINSK PLEASE PASS TO EUR DAS BRYZA

E.O. 12958: DECL: 11/28/2016

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EAID](#) [PREL](#) [PGOV](#) [AJ](#)

SUBJECT: PRESIDENT ALIYEV SEEKS BILATERAL "PERMANENT
WORKING GROUP" ON MACROECONOMIC POLICY AND DEVELOPMENT

REF: BAKU 1274

Classified By: AMBASSADOR ANNE E. DERSE PER REASONS 1.4 (B, D)

11. (U) This is an action request. Please see paragraph 5.

12. (C) In a one-on-one meeting with the Ambassador on November 23 (see septel for discussion of energy issues), President Aliyev, recalling his discussion with U.S. government officials in Istanbul last July about an intensified bilateral economic dialogue, enthusiastically welcomed the proposed February 2007 launch of the Economic Partnership Commission. "Practical, concrete results, not just intentions" are needed from the EPC, he said. He said he is especially interested in having the EPC help Azerbaijan address its serious macroeconomic policy challenges and a longer term development strategy for Azerbaijan. Azerbaijan, he worried, "is facing huge energy revenue inflows, and we can make mistakes because we don't have experience." He said Azerbaijan urgently needs advice and regular consultations on this challenge. Similarly, Azerbaijan needs advice to craft a sensible long term development strategy, Aliyev said. "We have water, power, road" and other projects, but they "need better coordination" in the framework of a long term development strategy. Hiring a full time outside advisor or consultant to the government as Kazakhstan did is sensitive because "one problem we have in Azerbaijan - a big problem - is that everyone thinks they know everything," he said. Nonetheless, advice is urgently needed. He proposed the U.S. and Azerbaijan establish a "permanent working group that can work with us on this" under the EPC, as a vehicle for regular consultations and a neutral forum to introduce expert views and advice.

13. (C) In an earlier conversation with the Ambassador, Executive Director of the State Oil Fund (SOFAZ) Shamar Movsumov made a similar plea. Noting that establishment of the EPC is "the best thing the USG could have done" to assist Azerbaijan's efforts to address successfully its economic challenges, he also urged that the EPC focus on "very strategic issues" of liberalization, macroeconomic management and development. Movsumov hopes the EPC would address questions such as "a development strategy for ten years -

what do we need to construct? What do we need to invest in?"

He also underscored the importance of concrete results. For example, he said, Azerbaijan has high unemployment, and is desperately in need of technical, vocational and service workers, who can be trained in six to ten months but such training is not taking place. A concrete recommendation from the EPC could spur a GOAJ effort to meet this need.

14. (C) In this connection, Movsumov noted the immense value of the macroeconomic model that BP had provided the GOAJ, at his request, and which had been located in SOFAZ (as a "neutral" forum with respect to the Central Bank, the Ministry of Economic Development and the Ministry of Finance, all of whom had vied to host the model. Full report reftel). He said he had held a first meeting of the two Ministers and the Central Bank Governor and demonstrated through the model the tradeoffs in terms of GDP at varying levels of inflation.

The model showed that if Azerbaijan experienced inflation much higher than 25-27 percent, it would lose over time almost USD 25 billion in GDP. He said that the model had made an important impression on Economic Development Minister Babayev, who is now a firm proponent of the view that the GOAJ must "address inflation through liberalization." Movsumov said that a similar model that could concretely illustrate the benefits and costs of WTO accession could help persuade those who are skeptics.

15. (SBU) Action Request: Given our interest in successful GOAJ management of its new oil wealth and development challenges, Aliyev's interest in establishing a "permanent working group" on macroeconomic policy and development to hold regular consultations is positive. We ask that Washington agencies develop the concept for such a group that

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can be launched as a deliverable at the EPC.
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